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SUBJECT: ECONOMIC INTERVIEWS IN BHUTAN

REF: NEW DELHI 6903

1. (SBU) SUMMARY. Econoff traveled to Bhutan in late August to interview several Ministry officials at the working level and to establish additional contacts with non-governmental organizations (NGOs). The three day visit, which included over 15 meetings around Thimphu, resulted in a number of important introductions. Econoff met with the folks heading up the World Trade Organization (WTO) accession bid. The Ministry of Finance was instrumental in completing a data call from the Millennium Challenge Corporation, and additional possibilities for Intellectual Property Rights (IPR) enforcement training were identified. The Bhutan Chamber of Commerce, along with the National Statistical Bureau, furnished some very useful statistics, including the Statistical Yearbook of Bhutan 2004. Discussions ranged from Foreign Direct Investment (FDI) to microfinance. On more than one occasion, Bhutan presented its view on urban pressure and the difficulties facing an increasingly educated and skilled workforce. Refugee and human rights issues, discussed on the margins, were reported in Reftel. END SUMMARY.

2. (SBU) During the week of August 22, Econoff conducted a series of working level visits in Thimphu, Bhutan. After attending a suite of discovery and introductory meetings with various Ministries and NGOs to establish working level contacts, Econoff followed up on prior visits by other officers, and asked additional questions. Econoff identified and interviewed persons with reporting responsibility for the Millennium Challenge Corporation, IPR and Bhutan's WTO accession bid. NGOs candidly furnished their interpretation of the situation on the ground and this proved a useful barometer for subsequent and follow-up interviews with the several Ministries.

CHAMBER OF COMMERCE ON THE BHUTANESE ECONOMY

3. (SBU) Econoff met with Bhutan Chamber of Commerce and Industry (BCCI) Vice President Bap Kinga, who had a very positive outlook on Bhutan's economy. According to Kinga, Bhutan's GDP has been growing at a steady rate of about 6.8 percent over the past twenty years. Imports have been steadily rising and inflation is around 5.4 percent. Kinga presented statistics showing US imports rising to \$1.3 million in 2002, while US exports have remained fairly flat at about \$330,000. According to Kinga, the US buys from Bhutan primarily fishing equipment, lemon grass oil, carpets, handicrafts, linens, and indigenous red rice. The US sells Bhutan white rice, soya bean oil, bows, arrows, mattresses, industrial and textile machinery, sheet aluminum, furniture and paints. (COMMENT: Archery is Bhutan's national sport and American-made compound bows are considered the best. In Thimphu, Econoff noted several storefronts displaying American archery equipment. Alternately, Bhutan's hand-tied fishing lures are prized by American anglers. END COMMENT.)

4. (SBU) Kinga added that the Royal Government of Bhutan (RGOB) is currently implementing its 2002 Foreign Direct Investment (FDI) policy. Kinga maintains that FDI is currently limited to joint ventures in hotels, resources, infrastructure development, and tourism, with a 70% cap in both manufacturing and services sectors. In trade development, the RGOB is also focusing on mineral-based industries, according to Kinga. He noted that Bhutan is often referred to as a "geologic museum," and has considerably large oxidized copper and zinc deposits. However, Kinga said, Bhutan does not have the technology for oxidized copper and zinc extraction. When Econoff asked Kinga about possible additional trade opportunities with Bhutan, Kinga stated that the Ministry of Trade and Industry is currently developing

its distribution infrastructure, but that the lower volume of trade was largely due to Bhutan's landlocked status.

15. (SBU) Kinga said that BCCI is trying to promote cottage industries and small scale initiatives. The BCCI has elected regional representatives to work with local residents to develop small business. Although Kinga admitted that there is a gross shortage of entrepreneurs with adequate accounting skills, he pointed out that small businesses pay no taxes for the first seven years of operation. A sub-committee within BCCI has been created to promote private sector development. Kinga noted that efforts to promote small business through exchange programs had met with mixed results in the past. He specifically mentioned the Small Business Women's Development Program, which is administered by Martha Morton (Director, Bringing China to Arkansas Program). According to Kinga, when this program was initiated, several of the Bhutanese participants who went to the US overstayed their visas. However, Kinga said that those participants had finally returned. After re-examining this program, the BCCI is now considering the establishment of a resource center within Bhutan wherein aspiring women entrepreneurs would be trained extensively for two weeks before sending them to the US for hands-on training. Kinga believes that women who are trained in advance of a US visit would have more incentive to return to Bhutan to implement their skills. BCCI is currently seeking financial assistance to develop the women's resource center.

16. (SBU) According to Kinga, human resources development is severely lacking throughout Bhutan. Most non-government workers are farmers with no management skills. There are severe funding constraints and most of the programs currently in place are subject to donor participation.

MICROFINANCE SCHEMES FOR RURAL BHUTAN

17. (SBU) Econoff met with Bhutan Development Finance Corporation's (BDFC) Managing Director, Nawang Gyetse. Gyetse described his role as microfinancer. According to Gyetse, the BDFC was established with help from the Asian Development Bank (ADB) in 1988 and focuses 80 percent of its resources in agro-rural areas, aiming at higher yields and efficiency. Gyetse noted that he has financed everything from home renovations to purchase of livestock. The BDFC has 24 branch offices (at least one office in each district). According to Gyetse, each branch manages its own loans, however he admitted that two-thirds of BDFC's portfolio ultimately is managed from Thimphu. ADB's soft loans have historically been the BDFC's primary source of funding, but Gyetse noted that the organization has also received funding from the Kuwait Fund for Economic Development. The United Nations has also been a contributor and originally the United Nations Capital Development Fund (UNCDF) financed BDFC's micro-operations. Gyetse mentioned that the BDFC recently had to borrow internally from its pension fund in order to continue operations. According to Gyetse, less and less money has been available from the NGOs for BDFC's micro-finance schemes. This year, the BDFC announced a savings program for rural Bhutan. Gyetse hopes that, in the future, the BDFC will be able to operate using money borrowed from the savings program combined with additional funds from NGOs. The BDFC, with a staff of 150 people and outstanding loans in excess of \$2.6 million, is actively seeking donors.

TELECOM PRIVATIZATION SLOW-GOING

18. (SBU) Econoff met with Bhutan Telecom's (BT) Managing Director, Thinley Dorji. According to Dorji, although Bhutan Telecom is government-owned, it is taking gradual steps to privatization. Currently, several other companies are providing internet service privately, although this is primarily for dial-up service. Large volume users, Dorji said, tend to be the cyber cafes springing up in Thimphu, which actually lease lines to the BT local area network for better speed. Dorji was curious to know whether the US would ever start requiring the URL www.____.co.us for its US-based websites. He mentioned that, since every other country is using it, the country ID makes it easy to identify. Dorji said this would be especially useful in helping BT to filter junk mail and spam from its limited LAN capacity. He also mentioned that BT had received a sizable loan from Denmark recently, but

that no other FDI was currently in the sector. Dorji said that, even though BT is government-owned, it is run very much like a private corporation. He added that there has not been much interest in FDI in the ITC sector because it is still very small. Infrastructure is also an inhibiting factor. According to Dorji, service is currently limited to urban areas--which are very few.

ROYAL MONETARY AUTHORITY'S PERSPECTIVE

19. (SBU) In a meeting with the Royal Monetary Authority's (RMA) Managing Director, Daw Tenzin, most of the conversation revolved around Bhutan's impending labor crisis. Tenzin, like others Econoff interviewed, was not confident that the cadre of higher-educated students in the country would be able to find work easily in Bhutan. Successful education efforts and increasing urbanization are causing Bhutan's children to leave the farm for the city. This, according to Tenzin, has led to other problems such as urban poverty and homelessness. In spite of Bhutan's recent growing pains, Tenzin said that skills in ITC, accounting, and management have increased and diversified. However, a market requiring many of these new skills has yet to fully develop, leaving a surplus of disappointed recent graduates without jobs. In the past, Tenzin noted, education opportunities were limited such that most graduates were immediately offered government jobs. However, even with the shortage of jobs, Tenzin mentioned that almost 100 percent of Bhutan's construction labor force comes from India and estimated that approximately 40,000 Indian men currently work on construction sites around Bhutan (including road construction). According to Tenzin, even under a contract with all its associated administration costs, Indian labor was still quite reasonable--so much so, in fact, that the Bhutanese scoff at the wages offered and avoid the sector altogether. Tenzin said that data, facts and figures about the RMA are easily accessible online at its website: www.rma.org.bt.

10. (SBU) Tenzin said that most of the money in foreign reserves, while in US dollars, is derived from grant aid and loans. The remainder, \$9 to \$10 million, is from tourism revenue. The RMA also manages rupee reserves and, after a recent slew of counterfeit Rs 500 and Rs 1000 notes (\$10s and \$20s), the RGOB has forbidden the use of any rupee notes larger than Rs 100. The Bhutanese ngultrum is pegged to the Indian rupee and Indian currency has been accepted in the same manner as Bhutanese currency until this past February, Tenzin noted. (COMMENT: Tenzin is intending to travel to Washington from September 20 to October 4 with his wife and niece, for the annual International Monetary Fund meeting. On leaving Tenzin's sparsely furnished office, Econoff noticed one lone framed photo on Tenzin's wall---a poster sized frame filled with dollar bills. END COMMENT.)

ECONOMIC STATISTICS AND THE CENSUS

11. (SBU) At the National Statistical Bureau (NSB), Econoff interviewed Director Kuenga Tshering. (NOTE: In 2003, the NSB was given autonomy from the Department of Planning and Policy in order to begin work on the census, which is currently being analyzed. The Census Bureau is an ad-hoc office of the Census Commissioner; even though the re-organization is only a paper exercise--no employees were moved. After the current census has been processed, responsibilities will be transferred back to NSB. END NOTE.) Tshering said that the census was a much larger undertaking this time and his analysts are putting data through a process of 100 percent validation against errors. The manual editing and coding phase is almost complete, according to Tshering.

12. (SBU) Perhaps the most interesting part of Tshering's discussion on the census was that the RGOB

SIPDIS believes that it should reach 100 percent of the population. Local citizens confirmed being asked to stay in their homes until after being officially surveyed and wrist-banded. Tshering noted that, for this census, the RGOB used local guides and entered a Global Positioning System (GPS) point for every citizen in the country. The RGOB even surveyed the herdsman living in remote mountain caves. Tshering said that the RGOB plans to use the GPS points to create Geographic Information System maps, which will help divide the country into constitutional districts by

population density.

13. (SBU) While the effort is much larger in scope than in the previous census, Tshering admitted that this was not a complete survey. A copy of the questionnaire was unavailable, but Tshering said that questions about family size, education level, major sources of income, and other social indicators were asked. When asked whether questions on religious preference were in the survey, Tshering had no comment. (NOTE: However he did confirm that every respondent was asked whether or not he was happy. END NOTE.) According to Tshering, once the data is validated manually, analysts will also quality control the digital data. They are using CPro, MS Access and SPSS for statistical analysis.

14. (SBU) Tshering furnished several useful reports on Bhutanese society and the economy, and discussed some of the more relevant statistics. According to Tshering, Bhutan's current budget deficit is between

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two to three percent of GDP. Tshering said that the deficit reflects a programmed pay raise for civil servants. He added that the civil service is in transition from cadre to position classification at the moment and he was very interested in learning more about the USG civil servant position classification system. (COMMENT: Apart from the census and employment classification systems, Tshering also stated that the constitution would be ratified in 2007 and that the delay is due to having to translate the document into common Dzongkha. Tshering said the first draft was too sanskritized to be understood. END COMMENT.)

GROWING PAINS IN URBAN AREAS

15. (SBU) "Education is destroying traditional lore and knowledge." At least that is what the Ministry of Works and Human Settlement's (MWHs) Secretary, Tshering Dorji, believes. Dorji also said that urban migration leads to lack of infrastructure capacity. According to Dorji, the goals of MWHs are to prevent the occurrence of slums and to provide shelter for everyone. He added that the emphasis has actually been to develop the rural areas. He noted that most of Bhutan's rural farming has not yet been mechanized and that the marketing capacity has also not been developed adequately to date. According to Dorji, since the RGOB's recent improvements in education policy, educated rural children have been flocking to the urban centers. Whereas formally children were only educated through grade six, they are now being taught through grade ten. The result, according to Dorji: hardly any child goes back to the village. The RGOB is trying to find ways to promote balanced regional development and keep the expanding urban centers from encroaching on rural areas while still making these areas attractive and desirable destinations for returning educated Bhutanese youth, Dorji added. In the urban centers, he went on, housing pressure is causing tremendous problems. One of the side-effects of this development pressure is that waterborne disease has increased in the urban areas. Citing Thimphu as a prime example of development pressure, Dorji said the area of the city limits had to be increased from nine square kilometers to twenty six. In spite of the development pressure, Dorji said (with some pride) that Bhutan has moved forward with new urban schemes such as user fees for water and parking, although he admitted that the public response to these fees was initially not very positive.

16. (SBU) Dorji stated that industrial development in Bhutan is limited due to high production and transportation costs. However, health and education industries in regional rural areas are being encouraged. In contrast, the construction industry has exploded. The RGOB is pushing development to rural areas in an effort to control the size of the urban centers. Dorji believes that Thimphu's population capacity is around 150,000 people. However, the RGOB's Land Act prohibits overdevelopment of rural areas. The Land Act does promote farming and reserving land for agriculture, which has frustrated some developers. However, Dorji noted that the trade-off between arable land and mountain slopes had always been an issue. Soils on steep slopes are equally unsuitable for construction and farming, according to Dorji. So, the competition for developable land is growing.

17. (SBU) While other sectors of the Bhutanese economy have yet to open, Dorji insisted that the

economy is slowly liberalizing. He pointed to the latest Bhutanese phenomenon, the family car. According to Dorji, people would rather own a vehicle and rent a house than the other way around. This trend has at least been good for trade. On infrastructure, Dorji commented that road building in Bhutan is very expensive because of the myriad environmental best management practices that must be followed in steep terrain. He acknowledged that the country's road network was critical and that the Asian Development Bank (ADB) and World Bank (WB) had been consulted for further financial assistance. According to Dorji, 202 blocks (similar to counties) had facilities and road networks or suspension bridges connecting them. He added that only in the remotest rural areas were facilities still lacking. Dorji admitted that road building projects take years to complete. In one example, Dorji mentioned that the RGOB had just started the first 70 kilometers of Bhutan's second East-West highway, which will ultimately be about 300 kilometers long, but the entire project may take over ten years to finish. Infrastructure and urban planning are Dorji's biggest concerns, closely followed by finding employment for new graduates.

LEGAL AFFAIRS AND INTELLECTUAL PROPERTY

18. (SBU) Econoff also met with RGOB's Office of Legal Affairs (OLA) Director, Kuenlay Tshering and Legal Officer Ugyen Wangdi. Tshering explained that OLA is an autonomous arm of RGOB's Executive Branch. He noted that Bhutan was now divided into 202 blocks (geogs) and 20 districts (dzongkhas), with OLA representation in each district. Tshering said that the OLA included 60 lawyers nationwide at all levels plus another 164 paralegals (jabmis). According to Tshering, the legal process in Bhutan has not become

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very complicated yet. There is a list of counselors currently available, he said, but most of the representatives in the private sector are only paralegals. Tshering noted that these paralegals have licenses for three to five years, and are intended to fill the void until the law sector is fully operational. OLA is currently only prosecuting government offences such as embezzlement, Tshering stated. According to Tshering, OLA was established in 2000 and will eventually become the Law Ministry, resembling and functioning like the US Attorney General's Office. He added that the OLA will have three specific functions: to provide legal services to the government; to draft and review laws of the executive branch and deconflict new with existing legislation; and to prosecute for and defend the government.

19. (SBU) Ugyen Wangdi is currently the RGOB point man for Intellectual Property Rights (IPR) issues in OLA. The OLA assists with legal opinions for IPR matters and is working closely with the Ministry of Trade and Industry's (MTI) IP division. Wangdi said that Bhutan passed the IP Act in 2001. Both Wangdi and Tshering understood that adequate IPR protection is a

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prerequisite for World Trade Organization (WTO) accession and Tshering noted that he was a member on the WTO accession bid committee.

ON THE CONSTITUTION, BRIEFLY

20. (SBU) OLA Director Kuenlay Tshering is also the member secretary and committee member drafting the Constitution. After public review, Tshering felt confident that the Constitution would be adopted in the National Assembly. An article in the Constitution on political parties limits the primary round to every five years, Tshering added. When asked whether currently banned political parties will be allowed to operate after the Constitution is ratified, Tshering could not confirm.

21. (SBU) National Assembly (NA) Deputy Director Lobzang Dorji stated in a brief meeting in NA offices that ratification of the constitution will also have a big impact on the economy. Although liberalization of the RGOB economy is already underway, Dorji acknowledged, the new constitution will change parliamentary procedures in their current form, which will hopefully fuel economic reforms. According to Dorji, the NA will be divided into four secretariats:

Research and Development, Legal Affairs, Administration, and Information Technology and Communications. (COMMENT: Although the NA was originally constructed to house a South Asian Association for Regional Cooperation (SAARC) meeting, the actual meeting never occurred. The NA is ornately decorated with numerous Buddhist symbols, murals, tapestries and flags. The Assembly Hall will have to be completely re-designed to accommodate the new members. END COMMENT.)

FINANCIAL OVERVIEW

122. (SBU) Econoff met with Ministry of Finance (MF) Department of Customs and Revenue Director Sangay Zam, and Department of Aid and Debt Management Director Sonam Wangchuk, and Program Officer Thinley Namgyel. Wangchuk explained that the Department of Aid and Debt Management was created in 2000 to coordinate external assistance. According to Wangchuk, Bhutan's first preference is grants, but concessional loans are also common--both bilateral and multilateral. Denmark, Japan, Austria, Norway and Switzerland are regular donors, Wangchuk said. Zam stated that 45 to 50 percent of Bhutan's domestic revenue is used for current expenditures and the external aid in grants and loans is used for capital expenditures, e.g., infrastructure development. One of the primary reasons that Bhutan has remained an attractive recipient of external aid, according to Zam, has been the country's ability to consistently cover its current expenditures. Zam added that customs revenue only accounts for two to three percent of RGOB's total income, although imports continue to increase. She added that, aside from alcohol and tobacco, the highest tariff currently is around thirty percent. However, Zam insisted that most of Bhutan's tariffs are much lower than that. (NOTE: Both Zam and Wangchuk agreed to furnish data in consideration of Millennium Challenge Account funding. Econoff has since received the data and has provided this information to the Millennium Challenge Corporation. END NOTE.)

FOREIGN AFFAIRS AND WORLD TRADE

123. (SBU) Ministry of Foreign Affairs (MFA) Under Secretaries Tenzin Wangchuk and Chitem Tenzin met

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Econoff in the MFA offices at the NA building. Tenzin reported that his office dealt with multilateral affairs. He added that, of Bhutan's fifty official diplomats, twenty were in the MFA. He also noted that two MFA officials were on the World Trade Organization's (WTO) accession team. Tenzin was in Geneva in November 2004 for the first accession meeting. The second meeting is scheduled for sometime this fall, probably in November. He said that the US has been the biggest supporter of Bhutan's accession and that the US is sometimes the only other country to show up for Bhutan's accession meetings in Geneva. Tenzin believes that Bhutan may get final approval as early as 2007 for WTO accession. He noted that Bhutan is willing to give some concessions in services and manufacturing, but that, it will be difficult to do this for all 300 trade items. Tenzin said that a final list should be available before the next working party. He added that Bhutan is the only SAARC member who is not a member of the WTO. Bhutan already has Free Trade Agreements (FTAs) with India, Thailand, SAARC, and SAFTA, and more could be in the works. He cited the Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMST-EC) as a prime example of deals in the pipeline.

124. (SBU) Tenzin believes the US support of Bhutan has been good for both political and economic reasons. Tenzin said his focus is on international conventions and agreements and multilateral issues. (NOTE: Since MFA is responsible for protocol, Econoff asked Tenzin about promoting exchange of high level visits. Tenzin said that, if a Bhutanese professional is invited to visit the US for professional reasons, such as training, the MFA needs about two weeks advance notice to get all the necessary paperwork in order for the person to travel. END NOTE.)

NGO VIEWS OF THE RURAL ECONOMY

125. (SBU) The Tarayana Foundation's (TF) executive

officer, Chime Wangdi and her Director, Tshering Yangzom, gave a more critical account of the economic situation outside the city limits. According to Wangdi, the economic state of affairs for most of Bhutan's rural children is bleak. Wangdi stated that the Tarayana Foundation runs its program entirely with donated funding. She noted that Tarayana has placed project staff in rural areas with two primary goals: education and rural economic development at the grassroots level. Tarayana is currently funding a program for 265 students, to ensure they have a complete education through high school. Another program that has gained momentum, according to Wangdi, is one that provides care for people in rural areas who have no next of kin. (NOTE: Wangdi explained that the Bhutanese do not understand the culture of eldercare facilities and orphanages. When a Bhutanese citizen is unable to care for themselves, the responsibility automatically falls on the next of kin. However, women that have traditionally borne the primary caregiver responsibility are increasingly entering the workforce. The economic aspirations of rural Bhutanese women has a spiraling effect in the caregiver chain. Young teenage girls in the family are now frequently saddled with caring for younger and elder relatives. The Tarayana Foundation routinely receives applications for assistance from families with severely handicapped relatives, especially for handicapped children who have grown too large for the caregiver to move from one location to another. END NOTE.) According to Wangdi, Tarayana's goal is not to provide permanent support to the rural Bhutanese, but to teach life skills and make them self-sufficient. Wangdi said that Tarayana enlists teachers from the National Technical School to assist with more complicated teaching concepts. One of the more difficult tasks, according to Wangdi, is the actual trek to the rural locations. She noted that, during one recent monsoon, staff members had to cross the same river over twenty times before reaching the intended village.

126. (SBU) Wangdi highlighted two projects in which Tarayana is working with locals to develop folk arts and crafts. Nettle weaving, a traditional skill that had almost been abandoned and lost to history, has been revived. Wangdi has been pleased with the success of the weaving project. Young students are being taught not only how to weave their products, but also how to market them and develop entrepreneurial skills. Wangdi was quick to point out that Tarayana is not promoting child labor, rather teaching the children early that they could develop marketable skills. Tarayana is also helping older Bhutanese by introducing simple handtools and labor-saving devices that expand and facilitate traditional craft making skills. Wangdi noted that, since the urban areas have recently banned the sale of plastic bags altogether, hand crafted paper bags from rural Bhutan are used in many of the shops. According to Wangdi, Tarayana is also experimenting with the use of hemp (marijuana) as a paper and cloth making input. She noted that marijuana grows throughout the Himalayas and eradication campaigns have been ineffective. Wangdi said there have been several public education efforts to discourage smoking marijuana, but actually using the weed for craft making is a recent consideration.

127. (SBU) Wangdi echoed other interviewees sentiments: educated children cannot farm and thus become a liability to the family. Wangdi added that those children educated beyond tenth grade also are not able to find good job opportunities in the village and either eventually revert to farming or move to urban areas, competing with other educated children for increasingly limited jobs. Wangdi said that, in her opinion, there were two limiting factors in the rural economy. The first was that culture and custom had created a mindset that was difficult to challenge or change. She mentioned the next of kin issue as one example. Another example was the farming practices in some areas. According to Wangdi, in many areas of rural Bhutan, when a person dies his accumulated wealth is buried with him, along with any tools and utensils that may have been his personal property. The dead are usually buried in mounds, above ground in flat areas with rocks piled on top. Wangdi said this uses up much of the farmable flat land, leaving the Bhutanese to farm the steep, uncultivated areas. The second limiting factor, according to Wangdi, is that rural Bhutanese are beginning to suffer urban scourges such as alcoholism. Wangdi reported that many Bhutanese borrow money and drink themselves to death. They then pass on their debt to the next generation, which custom and culture require to honor. Wangdi said alcoholism is particularly pervasive in central and south central Bhutan.

128. (SBU) According to Wangdi, Tarayana is working closely with the government and the BDFC on micro-finance issues. Tarayan's role as guarantor in the micro-finance schemes allows the Foundation to provide support and oversight during the loan period--so that the borrower does not overspend or overdrink. Wangdi noted that many of the Bhutanese used to go to India to borrow money, selling their harvest under-ripe and foregoing considerable efficiency in the process. Tarayana is also working to document traditional knowledge, Wangdi stated. According to Wangdi, many plants in Bhutan have yet to be documented and classified. Tarayana is working with local guides to identify the ethnobotanical use of plants. The enthusiasm for cataloguing the plants is gaining momentum, said Wangdi. Botanists from the agricultural Ministry have started participating in the program and volunteers are growing in numbers. The Bhutan Foundation, an internationally recognized charity, can route tax exempt donations directly to Tarayana, if Tarayana is the designated beneficiary. The program has been expanding annually, but Wangdi insists the primary focus for Tarayana is the rural children of Bhutan.

129. (SBU) UNICEF Representative Anoja Wijeyesekera reported that the RGOB appears to be committed to protecting the rights of children. She said that Bhutan had ratified the Rights of the Child Convention and that 27 percent of the budget is spent on health and education, exceptional for a developing country. Like others Econoff met, Wijeyesekera discussed the education dilemma. She said that, in spite of the advances in education that have led to recent observations that children are abandoning the farm and crowding the urban areas, many Bhutanese in rural areas are not being taught. This is especially true for nomads and rural residents of eastern Bhutan, where the literacy rate for females is only 27 percent, compared to better than 50 percent in most other parts of the country. In response, UNICEF has started an adult literacy program for women greater than fifteen years old. But, Wijeyesekera added, the government needs a catch-up program as well. She said there seems to be very little child labor, although domestic child labor seems to be increasing. She noted that this is a symptom of urbanization and that, as more women are working, they are enlisting the help of fifteen and sixteen year olds to serve as nannies.

130. (SBU) Renata Dessallien, Representative for the UN Development Program (UNDP) in Bhutan, said that UNDP's role had been to support good governance and provide international experience quietly and informally. Dessallien said that Bhutan has done an excellent job balancing good protection of the environment with local and rural sustenance and subsistence issues--especially in protected areas. According to Dessallien, UNDP is also supporting Information Technology and Communications (ICT) efforts to help harmonize equipment and make some processes web-based. She noted that the current bureaucratic constraints are staggering. A permit request from a rural resident often requires a two day walk to an urban center, to be filed in person. She added that UNDP is backing the RGOB's decentralization strategy and also providing professional audits. On employment, Dessallien echoed the sentiment that opportunities currently are scarce. She noted that the production sector is still largely government-run and certainly not autonomous. The UNDP wants to promote small to medium enterprises (SMEs) to generate income opportunities for new graduates. Currently, according to Dessallien, there is little or no entry space. Educated Indian civil servants, who were filling the gap, have mostly been replaced and neither civil service nor private sector jobs are now available.

LABOR PAINS

131. (SBU) To wrap up the discussion on employment issues, Econoff met with Ministry of Labor and Human Resources (MLHR) Chief Officer Tenzin Lekphell. Lekphell confirmed that, five to seven years ago, unemployment was not a problem. However, he added, now it is a big enough concern that a special board has been created to examine the issue. Lekphell said that MLHR's mission is to improve working conditions, generate employment opportunities and help the private sector grow. He noted that the MLHR is only eighteen months old itself and that it is divided into four Departments: Labor, Employment, Standards, and Human Resources. Lekphell stated that the Labor and

Employment Act, which was drafted before there was even an MLHR, should be passed in the next NA. He said that the legislation was widely cleared in the public review process and that recruitment is already underway to find inspectors to help implement the Act once it has passed. Lekphell stated that standards are currently under development, including occupational safety and health standards. The MLHR's Department of Labor administers foreign worker recruitment, according to Lekphell. The MLHR's HR Department handles vocational training primarily. Finally, Lekphell noted that the Employment Department acts as clearinghouse, provides job center services, promotes employment and encourages private sector investment and growth.

132. (SBU) Lekphell said that MLHR is also involved in the RGOB's current efforts to classify private and public sector occupations. He is personally helping to develop a policy that addresses the problems of foreign workers and rising unemployment levels. Lekphell added that, according to his official numbers, 37,411 foreign workers are currently in Bhutan with work permits. Of those, he said, 34,329 work in the private sector--mostly in construction. The remaining eight percent are divided evenly between government, semi-government and armed forces personnel. The total does not include Indian workers in border areas who can enter, work and exit freely. According to Lekphell, Indians are willing to work for less money than the Bhutanese and, furthermore, the Bhutanese are not skilled in many professions--nor do they care to relocate for long periods. Most of the construction done in Bhutan is through a labor-cost agreement between a Bhutanese developer and an Indian contractor. The Indian contractor, according to Lekphell, will hire for an average of Rs 80 per day. A Bhutanese, he said, will never take less than Rs 100, but he noted that most Bhutanese are still not as desperate as the Indians working in Bhutan. Lekphell stated that there has been no minimum wage established in Bhutan yet, but that a wage study is in draft form and a minimum wage standard is being developed. The RGOB is proposing Nu 125 per hour, to cover the basic standard of living. A social security study has been conducted for the private sector as well, Lekphell added. The RGOB is trying to recommend to the private sector the current civil service model for social security and is hoping that this will improve the employment standard. When Econoff asked what impact increasing numbers of foreign workers is having in urban centers like Thimphu, Lekphell acknowledged that the amount of pollution and sewerage has increased. He was surprised by Econoff's suggestion that MLHR should include in its labor-cost agreements a provision for trash receptacles, shower tents and portable toilets for the foreign workers. Lekphell admitted that the MLHR had never considered such an idea previously, and said he would consider creating such provisions in future agreements.

ON TRADE AND INDUSTRY

133. (SBU) Ministry of Trade and Industry Director of Planning and Policy Sonam Wangdi, who was rushing to meet the RGOB deadline for completing a follow-up WTO accession package for Bhutan's upcoming second working party meeting, took time out of his busy schedule to meet Econoff. Wangdi explained that the Ministry of Trade and Industry is comprised six primary sectors: trade, industry, tourism, energy, geology and mines, and intellectual property rights. Wangdi stated that Bhutan's arrangement with India is nearly borderless, as the FTA with India has existed since 1971. According to Wangdi, 95 percent of Bhutan's imports are from India and 90 percent of the country's exports are to India. He mentioned that GOI officials are coming to Bhutan in September to finalize a new ten-year FTA. Wangdi added that Bangladesh has a 74-item Preferential Trade Agreement (PTA), but that Bhutan had no formal agreement with Nepal for trade. He did say, however, that Sri Lanka enjoys some duty-free exchanges. Wangdi added that six meetings had taken place to develop a free trade area for BIMST-EC. According to Wangdi, trade accounts for sixty percent of GDP, including tourism. Wangdi said that the date for the next WTO working party meeting on Bhutan's accession was set for October 6. He added that Bhutan is currently doing outreach for WTO accession with the Bhutanese. Wangdi said Bhutan is serious about joining the global family and does not want to stand on the sidelines.

134. (SBU) Wangdi said that, although there is free circulation of currency between India and Bhutan, hard currency exchange only accounts for five percent of all transactions. He also noted that, while the rural, manufacturing and services sector each account for one

third of GDP, seventy-nine percent of Bhutanese are still employed in the rural sector. Thus, rural reform is key to Bhutan's economic future.

135. (SBU) Wangdi noted that hydropower is Bhutan's ace in the hole. He said that, while the sector will eventually be privatized, it is currently not eligible for FDI. Wangdi stated that Bhutan had only exploited some 1550 megawatts of its hydropower since the mid-eighties, which is only around five percent of potential production. Of the power produced, he added, only fifteen percent is used internally. The rest is exported. Wangdi admitted that forty percent of the government revenue comes from hydropower. Rather than reducing that figure in the future, Wangdi said that the RGOB plans to have hydropower contribute seventy percent of its revenue. He noted that the Tala plant will produce 1020 megawatts once it comes online. Wangdi noted that hydropower and tourism link up very well with RGOB's environmental ethic (NOTE: There were 10,000 tourists last year. END NOTE). Wangdi said that the NA is committed to a minimum of sixty-five percent forest cover, which is further linked to the country's Buddhist influence. Wangdi added that mining accounts for about two to three percent of GDP, and that a geological survey is forty percent complete. The survey, according to Wangdi, is focusing on soil stability and hazard analysis.

136. (SBU) Wangdi said that Bhutan welcomed any possible technical assistance and capacity building for IPR legislation and enforcement. He had several candidates in mind for potential training, if it became available. Post has informed the US Patent and Trademark Office, which has conducted IPR training for Bhutan previously, of the Director's request for additional training.

COMMENT

137. (SBU) If conditions in Thimphu are any example, the economy in urban Bhutan is undergoing change and inevitable growing pains. None of the Bhutanese interviewed seemed to be holding back information. Questions about education problems and other sensitive issues were generally answered directly and responses appeared sincere and consistent. The journey back to Paro from Thimphu was undertaken on foot, over three days, through the mountains. Though the rural Bhutanese are generally quite poor, there seems to be a basic economy at work in the remote areas of the Himalayan Kingdom as well. Farmers and their errant cattle herds dotted several meadows between peak and valley. The monks from the many monasteries between Thimphu and Paro were going and coming from various markets with oil jugs and other shopping paraphernalia in hand. All of the children encountered were, like most other children, slightly dirty, very happy, and busy playing with sticks or balls.

138. (SBU) Images of some of these encounters will be made available at Embassy New Delhi's SIPRnet site: <http://www.state.sgov.gov/p/sa/newdelhi/>, along with this and other related cables in text format.

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